

CITY OF HEDRICK, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

CITY OF HEDRICK, IOWA

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CITY OF HEDRICK, IOWA

OFFICIALS  
JUNE 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
LaVerne Cavin	Mayor	December 2011
Steve Pollock	Council Member	December 2011
Tommy Smith	Council Member	December 2013
Jeremy McKim	Council Member	December 2011
Lois Proctor	Council Member	December 2011
Robert Crawford	Council Member	December 2011
Ann Spilman	Clerk	Appointed
John N. Wehr	Attorney	Appointed

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Council  
City of Hedrick, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hedrick, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Hedrick, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at June 30, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at June 30, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hedrick, Iowa as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2012 on our consideration of the City of Hedrick, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hedrick, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2008 and 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
March 26, 2012

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Hedrick, Iowa, provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2011 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 1.8%, or \$6,797, from fiscal 2010 to fiscal 2011.
- Governmental disbursements decreased 14.9%, or \$51,450, in fiscal 2011 from fiscal 2010. Public works disbursements decreased \$64,177.
- The City's total cash basis net assets increased 147.2%, or \$108,630 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased \$81,823 and the assets of the business type activities increased by \$26,807.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets – Cash Basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the City's most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, and 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$3,523 to \$85,346. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service	\$ 49,614	\$ 50,979
Operating grants, contributions and restricted interest	133,617	144,454
General receipts:		
Property tax	122,137	100,475
Local option sales tax	69,076	69,317
Unrestricted interest	707	415
Other general receipts	<u>-</u>	<u>2,714</u>
Total receipts	<u>375,151</u>	<u>368,354</u>
Disbursements:		
Public safety	25,350	8,295
Public works	101,669	165,846
Health and social services	1,219	2,645
Culture and recreation	62,691	80,905
General government	<u>102,399</u>	<u>87,087</u>
Total disbursements	<u>293,328</u>	<u>344,778</u>
Increase in cash basis net assets	81,823	23,576
Cash basis net assets beginning of year	<u>3,523</u>	<u>(20,053)</u>
Cash basis net assets end of year	\$ <u>85,346</u>	\$ <u>3,523</u>

The City's total receipts for governmental activities increased by 1.8%, or \$6,797. The total cost of all programs and services decreased by \$51,450, or 14.9%, with no new programs added this year. The decrease in disbursements was primarily the result of the completion of the a couple of larger public works projects during the fiscal year ended June 30, 2011.

The City's property tax receipts increased by \$21,662 in 2011. Based on changes in the total assessed valuation, property and other City tax receipts are budgeted to decrease by \$13,914 next year compared to the final 2011 budget.

The cost of all governmental activities this year was \$293,328 compared to \$344,778 last year. However, as shown in the Statement of Activities and Net Assets on pages 9 and 10, the amount taxpayers ultimately financed for these activities was only \$110,097 because some of the cost was paid by those directly benefited from the programs \$49,614 or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$133,617. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased from \$368,354 to \$375,151, principally due to increased property tax received during the fiscal year ended June 30, 2011. The City paid for the remaining "public benefit" portion of governmental activities with \$122,137 in property tax (some of which could only be used for certain programs) and with other receipts, such as general entitlements.



### Changes in Cash Basis Net Assets of Business-Type Activities

	<u>Year ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 93,451	\$ 90,079
Sewer	161,124	62,295
Operating grants, contributions and restricted interest	30	3,855
Capital grants, contributions and restricted interest	797,725	-
Loan proceeds	<u>1,880,835</u>	<u>-</u>
Total receipts	<u>2,933,165</u>	<u>156,229</u>
Disbursements:		
Water	132,981	128,612
Sewer	<u>2,773,377</u>	<u>179,473</u>
Total disbursements	<u>2,906,358</u>	<u>308,085</u>
Increase (decrease) in cash basis net assets	26,807	(151,856)
Cash basis net assets beginning of year	<u>70,293</u>	<u>222,149</u>
Cash basis net assets end of year	\$ <u>97,100</u>	\$ <u>70,293</u>

Total business type activities receipts for the fiscal year were \$2,933,165 compared to \$156,229 last year due to sewer project grant and loan proceeds. The cash balance increased by \$26,807 from the prior year because of grant and loan proceeds not expended prior to year end. Total disbursements for the fiscal year increased by 843.3% to a total of \$2,906,358 due to sewer project expenditures.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Hedrick, Iowa completed the year, its governmental funds reported a combined fund balance of \$85,346 an increase of \$81,823 from last year's total of \$3,523. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$28,822 from the prior year to \$(106,840). The increase results from additional receipts compared to prior year.
- The Road Use Tax Fund cash balance increased by \$54,184 to \$81,960 during the fiscal year. This increase was attributable to a decrease in road use tax expenditures. The City intends to use this money to upgrade the condition of City roads.
- The Employee Benefits Fund cash balance decreased by \$2,513 to \$78,756 during the fiscal year due to property tax receipts in excess of employee benefits paid.
- The Civic Center Fund cash balance decreased by \$137 to \$16,664 during the fiscal year due to receipts in excess of current year disbursements.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$39,527 to \$(116,578) due primarily to an increase in water fund disbursements.
- The Sewer Fund cash balance increased by \$66,334 to \$213,678 due primarily to grant and loan receipts not expended by year end.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. Budgeted disbursements were increased by \$948,723 due to expected sewer project expenditures.

## DEBT ADMINISTRATION

At June 30, 2011, the City had \$1,505,395 in revenue bonds, compared to \$331,275 last year, as shown below.

### Outstanding Debt at Year End

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Revenue notes	\$ <u>1,505,395</u>	\$ <u>331,275</u>

Debt increased as a result of loan proceeds less principal retirement.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City has no outstanding general obligation debt and its general obligation constitutional debt limit is \$521,103.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hedrick, Iowa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the County (October 2011) now stands at 5.6%, versus 5.3% a year ago. This compares with the State's unemployment rate of 6.0% and the national rate of 9.0%.

Inflation in the State is higher than the national Consumer Price Index increase. The State's CPI increase was 10.78% for fiscal year 2011 compared with the national rate of 7.76%.

These indicators were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are \$582,806, a decrease of 81.2% from the final 2011 budget. Budgeted disbursements are expected to decrease by \$2,506,520. The City has added no major new programs or initiatives to the 2012 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$12,245 by the close of fiscal 2012.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ann Spilman, City Clerk, 109 North Main Street, Hedrick, Iowa.

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## FINANCIAL STATEMENTS

CITY OF HEDRICK, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs		Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
	<u>Disbursements</u>		
Governmental activities:			
Public safety	\$ 25,350	\$ 665	\$ -
Public works	101,669	42,779	78,679
Health and social services	1,219	2,170	-
Culture and recreation	62,691	4,000	44,236
General government	102,399	-	10,702
Total governmental activities	<u>293,328</u>	<u>49,614</u>	<u>133,617</u>
Business type activities:			
Water	132,981	93,451	3
Sewer	<u>2,773,377</u>	<u>161,124</u>	<u>27</u>
Total business type activities	<u>2,906,358</u>	<u>254,575</u>	<u>30</u>
Total	\$ <u>3,199,686</u>	\$ <u>304,189</u>	\$ <u>133,647</u>

General Receipts:

Property tax levied for:

    General purposes  
 Local option sales tax  
 Unrestricted interest  
 Loan proceeds

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

    Expendable:

        Streets  
 Other purposes  
 Debt service

Unrestricted:

    Total cash basis net assets

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
\$ -	\$ (24,685)	\$ -	\$ (24,685)
-	19,789	-	19,789
-	951	-	951
-	(14,455)	-	(14,455)
-	(91,697)	-	(91,697)
-	(110,097)	-	(110,097)
-	-	(39,527)	(39,527)
797,725	-	(1,814,501)	(1,814,501)
797,725	-	(1,854,028)	(1,854,028)
\$ 797,725	(110,097)	(1,854,028)	(1,964,125)
	122,137	-	122,137
	69,076	-	69,076
	707	-	707
	-	1,880,835	1,880,835
	191,920	1,880,835	2,072,755
	81,823	26,807	108,630
	3,523	70,293	73,816
	\$ 85,346	\$ 97,100	\$ 182,446
	81,960	-	81,960
	102,206	-	102,206
	8,020	-	8,020
	(106,840)	97,100	(9,740)
	\$ 85,346	\$ 97,100	\$ 182,446

## CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	General	Road Use Tax	Special Revenue Employee Benefits	Civic Center	Non-Major	Total
<b>RECEIPTS:</b>						
Property and other city taxes	\$ 191,213	\$ -	\$ 10,702	\$ 1,227	\$ -	\$ 203,142
Licenses and permits	665	-	-	-	-	665
Use of money and property	1,907	-	-	-	-	1,907
Intergovernmental	3,835	78,679	-	-	-	82,514
Charges for service	42,779	-	-	2,800	2,170	47,749
Miscellaneous	-	-	-	38,877	297	39,174
Total receipts	<u>240,399</u>	<u>78,679</u>	<u>10,702</u>	<u>42,904</u>	<u>2,467</u>	<u>375,151</u>
<b>DISBURSEMENTS:</b>						
Operating:						
Public safety	25,350	-	-	-	-	25,350
Public works	77,174	24,495	-	-	-	101,669
Health and social services	1,219	-	-	-	-	1,219
Culture and recreation	18,650	-	-	43,041	1,000	62,691
General government	89,184	-	13,215	-	-	102,399
Total disbursements	<u>211,577</u>	<u>24,495</u>	<u>13,215</u>	<u>43,041</u>	<u>1,000</u>	<u>293,328</u>
Net change in cash balances	28,822	54,184	(2,513)	(137)	1,467	81,823
<b>CASH BALANCE - Beginning of year</b>	<u>(135,662)</u>	<u>27,776</u>	<u>81,269</u>	<u>16,801</u>	<u>13,339</u>	<u>3,523</u>
<b>CASH BALANCE - End of year</b>	\$ <u>(106,840)</u>	\$ <u>81,960</u>	\$ <u>78,756</u>	\$ <u>16,664</u>	\$ <u>14,806</u>	\$ <u>85,346</u>
<b>Cash Basis Fund Balances</b>						
Restricted for:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 8,020	\$ 8,020
Capital projects	-	-	-	-	5,299	5,299
Employee benefits	-	-	78,756	-	-	78,756
Playground	-	-	-	-	1,487	1,487
Street projects	-	81,960	-	-	-	81,960
Civic center	-	-	-	16,664	-	16,664
Unassigned:	<u>(106,840)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(106,840)</u>
Total cash basis fund balances	\$ <u>(106,840)</u>	\$ <u>81,960</u>	\$ <u>78,756</u>	\$ <u>16,664</u>	\$ <u>14,806</u>	\$ <u>85,346</u>

## CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Proprietary Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating receipts:</u>			
Charges for service	\$ 93,451	\$ 161,124	\$ 254,575
<u>Operating disbursements:</u>			
Business-type activities	<u>132,981</u>	<u>47,482</u>	<u>180,463</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(39,530)</u>	<u>113,642</u>	<u>74,112</u>
<u>Non-operating receipts (disbursements):</u>			
Interest on investments	3	27	30
Intergovernmental	-	797,725	797,725
Loan proceeds	-	1,880,835	1,880,835
Capital projects	-	(2,641,101)	(2,641,101)
Debt service	<u>-</u>	<u>(84,794)</u>	<u>(84,794)</u>
Total non-operating receipts (disbursements)	<u>3</u>	<u>(47,308)</u>	<u>(47,305)</u>
Net change in cash balances	(39,527)	66,334	26,807
<u>CASH BALANCE - Beginning of year</u>	<u>(77,051)</u>	<u>147,344</u>	<u>70,293</u>
<u>CASH BALANCE - End of year</u>	\$ <u>(116,578)</u>	\$ <u>213,678</u>	\$ <u>97,100</u>
<u>Cash Basis Fund Balances</u>			
Unrestricted	\$ <u>(116,578)</u>	\$ <u>213,678</u>	\$ <u>97,100</u>

CITY OF HEDRICK, IOWA  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hedrick, Iowa is a political subdivision of the State of Iowa located in Keokuk County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hedrick, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Hedrick, Iowa has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Keokuk County Emergency Management Commission and Keokuk County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.



CITY OF HEDRICK, IOWA  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account the road use tax allocation from state of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund accounts for property tax received to be used for the payment of employee benefits of City employees.

The Civic Center Fund accounts for receipts and disbursements related to the City's Civic Center.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Hedrick, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF HEDRICK, IOWA  
NOTES TO FINANCIAL STATEMENTS

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JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2: CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2011, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. At June 30, 2011, the City had no investments.

CITY OF HEDRICK, IOWA  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 3: NOTES PAYABLE

Annual debt service requirements to maturity for the City's Sewer revenue bonds are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 59,000	\$ 45,621
2013	61,000	44,160
2014	64,000	42,330
2015	66,000	40,410
2016	67,000	38,430
2017	70,000	36,420
2018	72,000	34,320
2019	74,000	32,160
2020	77,000	29,940
2021	79,000	27,630
2022	82,000	25,260
2023	85,000	22,800
2024	87,000	20,250
2025	91,000	17,640
2026	93,000	14,910
2027	97,000	12,120
2028	99,000	9,210
2029	96,118	6,240
2030	86,277	2,700
Total	\$ <u>1,505,395</u>	\$ <u>502,551</u>

Sewer Revenue Bonds

On February 16<sup>th</sup> and 19<sup>th</sup>, 2010, the City entered into two loan agreements with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of sewer revenue bonds of up to \$1,605,000 with interest at 3.0% per annum. The agreements also require the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay for the cost of constructing improvements and extensions to the municipal wastewater treatment system. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn down \$1,589,000 of the authorized amount. An initiation fee of \$16,050 (1% of the authorized borrowing for the sewer revenue bonds) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the sewer revenue bonds drawn by the City during the year ended June 30, 2010. During the year ended June 30, 2011, the City paid principal of \$58,000 and interest of \$27,931 on the bonds.

The City had pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue bonds. The bonds are payable solely from sewer customer net receipts. Annual principal and interest payments on the bonds required 76% of net receipts. For the current year, principal and interest paid and total customer net receipts were \$85,931 and \$113,642, respectively.

The resolution providing for the issuance of the sewer revenue bonds issued under the loan agreements includes the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bond falling due in the same year.

CITY OF HEDRICK, IOWA  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 3: NOTES PAYABLE (Continued)

Forgivable Loan

On February 16, 2010, the City entered into two forgivable loan agreements with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of \$959,000 forgivable sewer revenue bonds. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal wastewater treatment system of the City. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements are not met and the loan is not forgiven, the City will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The City received funds from the DNR upon request to reimburse the City for costs as incurred. During the year ended June 30, 2011, the City drew down \$648,715 of the forgivable loan, bringing the total drawdowns to the authorized amount of \$959,000. At June 30, 2011, the City had not yet met the requirements for the loan to be forgiven.

NOTE 4: PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2011, was \$7,188, equal to the required contributions for the year.

NOTE 5: COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use, or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2011, is \$2,328. This liability has been computed based on rates of pay in effect at June 30, 2011.

NOTE 6: RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

CITY OF HEDRICK, IOWA  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 6: RISK MANAGEMENT (Continued)

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$13,659.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The City does not report a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly at June 30, 2011, no liability has been recorded in the City's financial statements. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7: DEFICIT FUND BALANCE

The General Fund had a deficit fund balance of \$106,840 and the Water Fund had a deficit balance of \$116,578 at June 30, 2011.

NOTE 8: RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials, totaling \$3,188 during the year ended June 30, 2011.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 26, 2012, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HEDRICK, IOWA

BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2011

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
<u>RECEIPTS:</u>		
Property and other city taxes	\$ 203,142	\$ -
Licenses and permits	665	-
Use of money and property	1,907	30
Intergovernmental	82,514	797,725
Charges for service	47,749	254,575
Miscellaneous	<u>39,174</u>	<u>-</u>
Total receipts	<u>375,151</u>	<u>1,052,330</u>
<u>DISBURSEMENTS:</u>		
Public safety	25,350	-
Public works	101,669	-
Health and social services	1,219	-
Culture and recreation	62,691	-
General government	102,399	-
Capital projects	-	2,641,101
Business type activities	<u>-</u>	<u>265,257</u>
Total disbursements	<u>293,328</u>	<u>2,906,358</u>
Excess (deficiency) of receipts over (under) disbursements	81,823	(1,854,028)
Other financing sources	<u>-</u>	<u>1,880,835</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	81,823	26,807
<u>BALANCES</u> - Beginning of year	<u>3,523</u>	<u>70,293</u>
<u>BALANCES</u> - End of year	\$ <u>85,346</u>	\$ <u>97,100</u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 203,142	\$ 184,779	\$ 184,779	\$ 18,363
665	500	500	165
1,937	5,100	5,100	(3,163)
880,239	83,330	83,330	796,909
302,324	1,872,000	2,803,521	(2,501,197)
39,174	2,400	15,454	23,720
<u>1,427,481</u>	<u>2,148,109</u>	<u>3,092,684</u>	<u>(1,665,203)</u>
25,350	8,800	8,800	(16,550)
101,669	154,500	154,500	52,831
1,219	3,000	3,000	1,781
62,691	37,000	37,000	(25,691)
102,399	99,522	99,522	(2,877)
2,641,101	1,605,000	2,536,521	(104,580)
265,257	220,536	237,738	(27,519)
<u>3,199,686</u>	<u>2,128,358</u>	<u>3,077,081</u>	<u>(122,605)</u>
(1,772,205)	19,751	15,603	(1,787,808)
<u>1,880,835</u>	<u>-</u>	<u>-</u>	<u>1,880,835</u>
108,630	19,751	15,603	93,027
<u>73,816</u>	<u>102,648</u>	<u>104,456</u>	<u>(30,640)</u>
\$ <u>182,446</u>	\$ <u>122,399</u>	\$ <u>120,059</u>	\$ <u>62,387</u>



CITY OF HEDRICK, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

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JUNE 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$948,723. The budget amendment is reflected in the final budgeted amount.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government, capital projects and business type activities functions.

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OTHER SUPPLEMENTAL INFORMATION

## CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue <u>Playground</u>	Capital Projects <u>Projects</u>	Debt Service <u>Service</u>	<u>Total</u>
<u>RECEIPTS:</u>				
Charges for service	\$ -	\$ 2,170	\$ -	\$ 2,170
Miscellaneous	<u>297</u>	<u>-</u>	<u>-</u>	<u>297</u>
Total receipts	297	2,170	-	2,467
<u>DISBURSEMENTS:</u>				
Culture and recreation	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Net change in cash balances	(703)	2,170	-	1,467
<u>CASH BALANCES</u> - Beginning of year	<u>2,190</u>	<u>3,129</u>	<u>8,020</u>	<u>13,339</u>
<u>CASH BALANCES</u> - End of year	\$ <u>1,487</u>	\$ <u>5,299</u>	\$ <u>8,020</u>	\$ <u>14,806</u>
<u>Cash Basis Fund Balances</u>				
Restricted for other purposes	\$ <u>1,487</u>	\$ <u>5,299</u>	\$ <u>8,020</u>	\$ <u>14,806</u>

CITY OF HEDRICK, IOWA

SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2011

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance June 30, 2010</u>
<u>Revenue Bonds</u>				
Sewer CSG0224R	February 19, 2010	3.00%	\$ 243,000	\$ 2,430
Sewer CS0246R	February 16, 2010	3.00%	<u>1,362,000</u>	<u>328,845</u>
			\$ <u>1,605,000</u>	\$ <u>331,275</u>

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance June 30, 2011</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 216,688	\$ 9,000	\$ 210,118	\$ 3,755	\$ -
<u>1,015,432</u>	<u>49,000</u>	<u>1,295,277</u>	<u>24,176</u>	<u>-</u>
\$ <u>1,232,120</u>	\$ <u>58,000</u>	\$ <u>1,505,395</u>	\$ <u>27,931</u>	\$ <u>-</u>

## CITY OF HEDRICK, IOWA

## BOND MATURITIES

JUNE 30, 2011

Year Ending June 30	Revenue Bonds							
	Sewer Construction Issued February 19, 2010				Sewer Construction Issued February 16, 2010			
	Interest		Amount	Interest		Amount	Total	
	Rate			Rate				
2012	3.00	% \$	9,000	3.00	% \$	50,000	\$ 59,000	
2013	3.00		9,000	3.00		52,000	61,000	
2014	3.00		10,000	3.00		54,000	64,000	
2015	3.00		10,000	3.00		56,000	66,000	
2016	3.00		10,000	3.00		57,000	67,000	
2017	3.00		11,000	3.00		59,000	70,000	
2018	3.00		11,000	3.00		61,000	72,000	
2019	3.00		11,000	3.00		63,000	74,000	
2020	3.00		12,000	3.00		65,000	77,000	
2021	3.00		12,000	3.00		67,000	79,000	
2022	3.00		12,000	3.00		70,000	82,000	
2023	3.00		13,000	3.00		72,000	85,000	
2024	3.00		13,000	3.00		74,000	87,000	
2025	3.00		14,000	3.00		77,000	91,000	
2026	3.00		14,000	3.00		79,000	93,000	
2027	3.00		15,000	3.00		82,000	97,000	
2028	3.00		15,000	3.00		84,000	99,000	
2029	3.00		9,118	3.00		87,000	96,118	
2030	-		-	3.00		86,277	86,277	
Total		\$	210,118		\$	1,295,277	\$ 1,505,395	

## CITY OF HEDRICK, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS

FOR THE YEARS ENDED JUNE 30, 2011, 2008 AND 2004

	<u>2011</u>	<u>2008</u>	<u>2004</u>
<b><u>RECEIPTS:</u></b>			
Property and other city tax	\$ 203,142	\$ 170,184	\$ 101,817
Licenses and permits	665	797	465
Use of money and property	1,907	6,493	6,872
Intergovernmental	82,514	88,306	79,066
Charges for service	47,749	41,300	31,097
Miscellaneous	<u>39,174</u>	<u>42,304</u>	<u>1,232</u>
Total	\$ <u>375,151</u>	\$ <u>349,384</u>	\$ <u>220,549</u>
<b><u>DISBURSEMENTS:</u></b>			
Operating:			
Public safety	\$ 25,350	\$ 21,529	\$ 13,038
Public works	101,669	132,386	110,203
Health and social services	1,219	2,017	740
Culture and recreation	62,691	55,999	28,343
General government	<u>102,399</u>	<u>82,196</u>	<u>69,872</u>
Total	\$ <u>293,328</u>	\$ <u>294,127</u>	\$ <u>222,196</u>

## CITY OF HEDRICK, IOWA

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Program Expenditures</u>
Indirect:		
U.S. Department of Housing and Urban Development:		
Iowa Department of Economic Development:		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	\$ <u>497,356</u>
Environmental Protection Agency:		
Iowa Department of Natural Resources:		
Capitalization Grants for Clean Water State Revolving Funds	66.458	216,687
Capitalization Grants for Clean Water State Revolving Funds - ARRA	66.458	<u>648,716</u>
		<u>865,403</u>
Total		\$ <u>1,362,759</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Hedrick, Iowa and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTORL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council  
City of Hedrick, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hedrick, Iowa as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 26, 2012. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hedrick, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Hedrick, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hedrick, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of the City of Hedrick, Iowa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item 11-II-A to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item 11-II-B to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hedrick, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hedrick, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City of Hedrick, Iowa's responses, we did not audit the City of Hedrick, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hedrick, Iowa and other parties to whom the City of Hedrick, Iowa may report, including federal awarding entities and pass-thru entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hedrick, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
March 26, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and  
Members of the City Council  
City of Hedrick, Iowa

Compliance

We have audited the City of Hedrick, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Hedrick, Iowa's major federal programs for the year ended June 30, 2011. The City of Hedrick, Iowa's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal programs are the responsibility of the City of Hedrick, Iowa's management. Our responsibility is to express an opinion on the City of Hedrick, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hedrick, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hedrick, Iowa's compliance with those requirements.

In our opinion, the City of Hedrick, Iowa complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

The management of the City of Hedrick, Iowa, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Hedrick, Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hedrick, Iowa's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in Part III the accompanying Schedule of Findings and Questioned Costs as item 11-III-A to be a material weakness.

The City of Hedrick, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Hedrick, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hedrick, Iowa and other parties to whom the City of Hedrick, Iowa may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
March 26, 2012

CITY OF HEDRICK, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Part I: Summary of the Independent Auditor's Results

- a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.
- d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- e) An unqualified opinion was issued on compliance with requirement applicable to the major programs.
- f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g) The major programs were: 14.228 Community Development Block Grants/States Program and Non-Entitlement Grants in Hawaii and 66.458 Capitalization Grants for Clean Water State Revolving Funds.
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i) The City of Hedrick, Iowa did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

Instances of Noncompliance:

No matters were noted.

Internal Control Deficiencies:

11-II-A Segregation of Duties:

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its internal control procedures to obtain the maximum internal control possible under the circumstances.

Response - The internal policies will be reviewed on a regular basis.

Conclusion - Response accepted.

11-II-B Payroll Tax Returns:

Comment - Federal form 941 was not filed by the due date for the first two quarters of 2011.

Recommendation - The City should file all payroll tax returns by their due date.

Response - We will do so from now on.

Conclusion - Response accepted.

CITY OF HEDRICK, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

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Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

CFDA Numbers 14.228 Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii and 66.458 Capitalization Grants for Clean Water State Revolving Funds.

- 11-III-A Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record keeping for receipts, including those related to Federal programs. See item 11-II-A.

Part IV: Other Findings Related to Statutory Reporting

- 11-IV-A Certified Budget – Disbursements during the year ended June 30, 2011, exceeded the amounts budgeted in the public safety, culture and recreation, general government, capital projects and business type activities functions.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – In the future, we will amend our budget prior to over expenditure.

Conclusion – Response accepted.

- 11-IV-B Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- 11-IV-C Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- 11-IV-D Business Transaction – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Diane Crawford, Spouse of Council Person	Mowing	\$ 3,188

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Diane Crawford may represent conflicts of interest since total transactions were in excess of \$2,500 during the fiscal year.

Recommendation – The City should get competitive bids for transactions which exceed \$2,500 in aggregate for the fiscal year.

Response – We will do so from now.

Conclusion – Response accepted.

- 11-IV-E Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

CITY OF HEDRICK, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

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Part IV: Other Findings Related to Statutory Reporting (Continued)

- 11-IV-F Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not. Although the minutes of Council proceedings were published, the minutes for August 2, 2010 were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and publish Council minutes as required.

Response – We will do so from now on.

Conclusion – Response accepted.

- 11-IV-G Revenue Notes – The City has complied with the revenue note resolutions.

- 11-IV-H Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- 11-IV-I Financial Condition – The General Fund and Water Fund had a deficit balances at June 30, 2011.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the accounts to a sound financial position.

Response – We will do so.

Conclusion – Response accepted.